

**STATE OF MICHIGAN  
DEPARTMENT OF LABOR AND ECONOMIC GROWTH  
OFFICE OF FINANCIAL AND INSURANCE REGULATION**

**Before the Commissioner of Financial and Insurance Regulation**

**In the matter of home insurance rates filed  
by the Michigan Basic Property Insurance  
Association**

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**Order No. 08-019-R**

**Issued and entered  
this 11<sup>th</sup> day of May 2008  
by Ken Ross  
Commissioner**

**ORDER DISAPPROVING RATES**

Home insurance is essential. It is essential to the purchase of a home because lenders require it. It is essential to the responsible ownership of a home to prevent large losses.

Recognizing this, in 1968 the Michigan Legislature established, by 1968 PA 262, MCL 500.2901 et seq., the Michigan Basic Property Insurance Association ("Michigan Basic"). There are few requirements to qualify for the purchase of home insurance from Michigan Basic. Thus, many persons denied home insurance in the regular or voluntary insurance market may secure coverage from Michigan Basic.

Rates to be charged by Michigan Basic are specified in MCL 500.2930a:

(1) Except as otherwise provided in subsection (4)(c), rates charged in each territory by the pool for home insurance shall be equal to the weighted average of the 10 voluntary market insurer groups with the largest premium volume in this state. Rating territories for home insurance established by the pool shall be the same as those utilized by the largest number of insurers by premium volume writing home insurance in this state. Any change in the rates for an HO-2 form replacement cost policy by those insurers that would produce a change in excess of 5% in the HO-2 pool rates for any territory shall be reflected as soon as reasonably practicable in the HO-2 pool rates. HO-2 pool rates shall be reviewed at least annually, but shall not be revised more often than quarterly.

\* \* \*

(3) The pool or any other association or organization designated by the pool shall develop statistical plans, rating rules, classifications, territory rating plans, and

manuals of classification for home insurance issued on behalf of the pool consistent with this section.

\* \* \*

(5) Rates and policy forms shall be filed in accordance with such provisions of this chapter as the commissioner designates.

\* \* \*

In determining the “weighted average,” Michigan Basic has traditionally averaged the base rates of the top 10 insurer groups. This is reflected in the rates filed by Michigan Basic on March 12, 2008 for HO-2 (traditional home), HO-4 (apartment), and HO-6 (condominium) lines of insurance. However, rates calculated in this manner are no longer appropriate or lawful.

An insurer begins calculating an individual’s premium with the base rate and then applies factors that it has determined relate to the frequency or severity of losses, such as age of dwelling, type of construction, and safety devices. Several years ago, final premiums charged were not, on average, greatly disparate from the base rates.

This is no longer true. New rating factors, especially the use of insurance credit scoring, have greatly influenced the calculation of premiums. Base rates have been driven up so that insurers may deeply discount the rates of persons with high insurance credit scores. Base rates, which once had some meaningful correlation with expected losses, have now become just a starting point in a methodology that arrives at expected losses.

Michigan Basic is required in its home insurance rates to conform to Chapter 21 of the Insurance Code of 1956, as amended, MCL 500.2101 et seq. Under this Chapter, rates may not be unfairly discriminatory, as defined in MCL 500.2109(1)(c):

1) All rates for automobile insurance and home insurance shall be made in accordance with the following provisions:

\* \* \*

(c) A rate for a coverage is unfairly discriminatory in relation to another rate for the same coverage if the differential between the rates is not reasonably justified by differences in losses, expenses, or both, or by differences in the uncertainty of loss, for the individuals or risks to which the rates apply. A reasonable justification shall be supported by a reasonable classification system; by sound actuarial principles when applicable; and by actual and credible loss and expense statistics or, in the case of new coverages and classifications, by reasonably anticipated loss and expense experience. A rate is not unfairly discriminatory because it reflects differences in expenses for individuals or risks with similar anticipated losses, or because it reflects differences in losses for individuals or risks with similar expenses.

With regard to the current rate filing, because of its reliance on base rates, the differential between the rates is not reasonably justified by differences in losses. There is not a reasonable justification because there is not a reasonable classification system or support by actual and credible loss statistics. According to information from Michigan Basic, actual and credible loss statistics would support a reduction in rates by 6% rather than the proposed increase of 18.9%.

Thus, the proposed rates should be disapproved. Other actions by the Commissioner are needed and authorized by Chapter 29.

First, MCL 500.2930a(5) provides:

(5) Rates and policy forms shall be filed in accordance with such provisions of this chapter as the commissioner designates.

The Commissioner, to bring Michigan Basic into conformity with MCL 500.2109(1)(c), should require that Michigan Basic file home insurance rates calculated upon the average premium charged by the top 10 insurer groups and not upon their base rates.

Second, MCL 500.2920 provides:

(2) The pool shall adopt a plan of operation and any amendments to the plan, not inconsistent with this chapter, necessary to assure the fair, reasonable, equitable, and nondiscriminatory manner of administering the pool, including compliance with chapter 21, and to provide for any other matters as are necessary or advisable to implement this chapter. The plan of operation and any amendments to the plan shall be subject to prior written approval by the commissioner. All members of the pool shall comply with the plan of operation.

\* \* \*

(4) If for any reason the pool fails to adopt suitable needed amendments to the plan, the commissioner shall adopt and promulgate such reasonable rules as are necessary or advisable to effectuate the provisions of this chapter, which rules shall continue in force until modified by the commissioner or superseded by a plan of operation adopted by the pool and approved by the commissioner.

The Plan of Operation currently contains broad statutory language, quoted above, from MCL 500.2930a(1). The Plan of Operation needs to be amended to make it clear that home insurance rates in the future are to be calculated upon average premium charged by the top 10 insurer groups and not upon the base rates of the top 10 insurer groups. As well as bringing rates into conformity with MCL 500.2109(1)(c), it will assure that Michigan Basic operates in a “fair, reasonable, equitable, and nondiscriminatory” manner as required by MCL 500.2920(2).

Therefore, it is ORDERED that:

1. The home insurance rates filed on March 12, 2008 by Michigan Basic are disapproved.
2. Michigan Basic shall file home insurance rates as soon as practicable that are calculated using the average premium charged by the top 10 insurer groups.
3. Michigan Basic shall amend its Plan of Operation to specify that home insurance rates shall be calculated using the average premium charged by the top 10 insurer groups.

A handwritten signature in black ink, appearing to read 'Ken Ross', written over a horizontal line.

Ken Ross  
Commissioner